

Message Text

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PAGE 01 MANILA 11737 01 OF 02 290905Z

ACTION EA-09

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3023

INFO AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 11737

HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

E.O. 11652: N/A

TAGS: EFIN, EINV, RP

SUBJECT: FOREIGN FIRMS BORROWING GUIDELINES APPROVED

REF: A) MANILA 4563, B. MANILA 6877

1. SUMMARY. THE MONETARY BOARD HAS ADOPTED GUIDELINES GOVERNING ACCESS TO PESO CREDIT BY FOREIGN COMPANIES IN THE PHILIPPINES. THE APPROACH IS BASICALLY THE SAME AS THAT DISCUSSED FOR THE PAST FOUR MONTHS (SEE REFTELS) AND UTILIZES DEBT/EQUITY STANDARDS TO GOVERN ELIGIBILITY FOR DOMESTIC CREDIT. THE GUIDELINES PERMIT SOME FLEXIBILITY BY THE COMMITTEE CONSIDERING INDIVIDUAL APPLICATIONS FOR CREDIT, BUT SOME SEE THIS AS A SOURCE OF UNCERTAINTY AND POSSIBLE CORRUPTION RATHER THAN AN IMPROVEMENT OVER PREVIOUS VERSIONS. AN AMCHAM SURVEY INDICATES THAT BETWEEN 59 PERCENT AND 71 PERCENT OF FOREIGN COMPANIES ARE SHORT OF THE ULTIMATE DEBT/EQUITY REQUIREMENTS (TO BE MET AFTER THREE YEARS), AND SOME FIRMS ARE FACED WITH SUBSTANTIAL RESTRUCTURING OF FINANCIAL OPERATIONS. IMPACT ON THE CLIMATE FOR FOREIGN INVESTMENT IS

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PAGE 02 MANILA 11737 01 OF 02 290905Z

UNCERTAIN AND DEPENDS IMPORTANTLY ON THE MANNER IN WHICH THE GUIDELINES ARE APPLIED. THE IMPACT, HOWEVER, CAN HARDLY BE POSITIVE. END SUMMARY.

2. THE MONETARY BOARD ON JULY 22 APPROVED GUIDELINES GOVERNING ACCESS TO DOMESTIC BORROWING BY FOREIGN FIRMS IN THE PHILIPPINES. THE GUIDELINES HAVE BEEN INCORPORATED

IN A CENTRAL BANK CIRCULAR WHICH, HOWEVER, IS NOT YET AVAILABLE. THE FINAL VERSION OF THE CIRCULAR WILL BE FORWARDED BY AIRGRAM AT A LATER DATE.

3. MOST DETAILS OF THE GUIDELINES ARE KNOWN, HOWEVER, AND THEY FOLLOW CLOSELY THE PROVISIONS OF THE DRAFT CIRCULAR PREVIOUSLY DISTRIBUTED BY THE JOINT COMMITTEE ON FOREIGN COMPANY CREDIT (DISCUSSED REFTELS). BRIEFLY, THE GUIDELINES WILL PERMIT FOREIGN COMPANIES (OVER 40 PERCENT FOREIGN-OWNED) ACCESS TO DOMESTIC CREDIT ONLY IF THEY CAN PRESENT CERTIFICATION THAT THEY MEET SPECIFIED DEBT/EQUITY REQUIREMENTS. THESE REQUIREMENTS RANGE FROM 60:40 FOR THE MOST FAVORED FIRMS (E.G., THOSE ENJOYING BOI INCENTIVES OR ENGAGED IN EXPORT), 55:45 FOR THOSE IN OTHER MANUFACTURING ACTIVITIES, TO 50:50 FOR ALL OTHERS. FIRMS MAY TAKE THREE YEARS TO REACH THESE RATIOS IN STAGES. ALL DEBT IS CONSIDERED, FOREIGN AND DOMESTIC.

4. ONE SIGNIFICANT DIFFERENCE FROM THE FORM OF CREDIT LIMITATION PREVIOUSLY CONSIDERED LIES IN THE "GUIDELINE" CHARACTERIZATION. THE CERTIFICATION OF COMPLIANCE IS TO BE PROVIDED BY A JOINT COMMITTEE, WHICH WILL HAVE ESSENTIALLY THE SAME COMPOSITION AS THE COMMITTEE WHICH PRODUCED THE THIDELINES. IT WILL BE CHAIRED BY BOARD OF INVESTMENTS (BOI) GOVERNOR TORDESILLAS AND CENTRAL BANK (CB) DEPUTY GOVERNOR LAYA, AND WILL HAVE MEMBERS LIMITED OFFICIAL USE

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PAGE 03 MANILA 11737 01 OF 02 290905Z

FROM CB, BOI, AND THE NATIONAL ECONOMIC AND DECELOPMENT AUTHORITY (NEDA). THE COMMITTEE HAS THE LATITUDE TO CONSIDER SPECIAL CIRCUMSTANCES PRESENTED BY FIRMS OR INDUSTRIEIS, AND RECOMMEND RELAZATION OF THE GUIDELINES IN PARTICULAR CASES.

5. SOME FOREIGN FIRMS WILL HAVE LITTLE DIFFICULTY MEETING THE DEBT/EQUITY REQUIREMENTS, BUT OTHERS WILL HAVE TO MAKE MAJOR ADJUSTMENTS--INFUSION OF NEW EQUITY OR ALTERNATIVES TO BORROWING. FOR SOME, ALTERATION OF THE OWNERSHIP STRUCUTRE TO ESCAPE THE "FOREIGN" CATEGORY MAY BE A REASONABLE COURSE. THE AMERICAN CHAMBER (AMCHAM) COMPLETED A SURVEY OF 114 FOREIGN-OWNED FIRMS IN APRIL, 90 PERCENT OF WHICH WERE AMERICAN-OWNED. THE PROPORTION OF THESE FIRMS EXCEEDING A DEBT/QUIETY RATION OF 80:20 (RATIO FOR THE MOST FAVORED FIRMS DURING THE FIRST YEAR) WAS 25 PERCENT, AND THE PROPORTION EXCEEDING 50:50 (THE RATIO FOR THE LEAST-FAVORED FIRMS AFTER THE THIRD YEAR) WAS 71 PERCENT. FIFTY-NINE PERCENT HAD DEBT/EQUITY RATIO EXCEEDING 60:40, THE MOST FAVORABLE RATIO AFTER THREE YEARS.

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PAGE 01 MANILA 11737 02 OF 02 290945Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 11737

HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

6. AND EMBASSY OFFICER DISCUSSED THE GUIDELINES WITH A CB OFFICIAL WHO IS A MEMBER OF THE JOINT CREDIT COMMITTEE. SHE CONSIDERED THE MOVE FROM HARD AND FAST RULES TO FLEXIBLE GUIDELINES TO BE A CONCILITARY GESTURE TOWARD FOREIGN COMPANIES, AND INTERPRETED THE MESSAGE FROM THE AMCHAM TO BE THAT "THEY CAN LIVE WITH IT." SHE EXPECTS MINIMAL IMPACT ON THE FOREIGN INVESTMENT CLIMATE. SHE AGREED THAT THE FIRST FEW MONTHS OF THE PROGRAM WILL BE CRUCIAL IN SETTING THE TONE, SINCE THE PRINCIPLES FOR GRANTING EXCEPTIONS WILL BE STABLISHED DURING THAT PERIOD.

7. PREVIOUS REPORTING HAS NOTED DIFFERENCES OF OPINION WITHIN THE AMERICAN BUSINESS COMMUNITY ON THE IMPACT OF THESE GUIDELINES. IN SPITE OF STRONG FEELINGS HELD BY SOME AGAINST THE DEBT/EQUITY REQUIREMENTS, THE IMPRESSION THAT FOREIGN BUSINESSMEN CAN "LIVE WITH IT" IS WIDESPREAD.

8. HOWEVER, TWO MEMBERS OF THE AMCHAM FINANCE COMMITTEE HAVE DONE EXTENSIVE WORK ON THE IMPACT OF THE GUIDELINES
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PAGE 02 MANILA 11737 02 OF 02 290945Z

AND ARE QUITE DISTURBED AT THE IMPLICATIONS. THEY POINT

OUT THAT THE GUIDELINES CONSIDER AS DEBT ALL BALANCE SHEET DEBT, AND PAYABLES TO THE HOME COMPANY CAN BE SUBTRACTED ONLY TO THE EXTENT THAT THEY ARE NET OF RECEIVABLES. ACCORDING TO THEM, THIS MAKES THE RESTRICTIONS EVEN TOUGHER THAN IN MALAYSIA, WHICH HAS HERETOFORE BEEN SOMETHING OF A STANDARD FOR THIS PART OF THE WORLD. AS PREVIOUSLY NOTED, "FLEXIBILITY" IS SEEN AS PRESENTING A PERFECT OPPORTUNITY FOR PAYOFFS, AND, BY INCREASING UNCERTAINTY, "FLEXIBILITY" HAS AN EVEN GREATER NEGATIVE IMPACT ON FOREIGN INVESTMENT THAN DEFINITIVE RULES.

9. ONE AMERICAN BANKER'S ASSESSMENT OF THE IMPACT ON VARIOUS SECTORS:

OIL COMPANIES - OK FOR THE FIRST YEAR, BUT INCREASING DIFFICULTIES IN SUBSEQUENT YEARS AS THE PRICE OF OIL, AND CONSEQUENTLY INTER-COMPANY DEBT, INCREASES. ONE POSSIBLE SOLUTION IS LIQUIDATION OF PESO BORROWINGS.

AUTOS - SOME BELIEVE THEY WILL GET SPECIAL TREATMENT BY THE COMMITTEE, BUT THAT REMAINS TO BE SEEN.

TIRE INDUSTRY - NO PROBLEMS HERE.

DRUGS - SOME FIRMS ARE WELL-CAPITALIZED BUT MOST ARE NOT. IN THE OPINION OF THIS SOURCE, SOME U.S. CORPORATIONS WILL BE HIT BADLY IF THERE IS CONSISTENT APPLICATIONS OF THE GUIDELINES.

10. COMMENT. THE GOP'S JOINT CREDIT COMMITTEE HAS NOT BEEN WELL-ORGANIZED IN ITS APPROACH TO THIS PROBLEM, AND THE IMPRESSION PERSISTS THAT THE OPINION OF A FEW DETERMINED INDIVIDUALS HAVE PREVAILED. CB DEPUTY GOVERNOR JAIME LAYA, FOR EXAMPLE, LISTENED ATTENTIVELY AND BY APPEARANCE SYMPHETICALLY TO THE ARGUMENTS PRESENTED BY THE AMCHAM, BUT LITTLE EVIDENCE OF THIS EMERGES IN THE FINAL VERSION LIMITED OFFICIAL USE

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PAGE 03 MANILA 11737 02 OF 02 290945Z

OF THE GUIDELINES. ON THE OTHER HAND, THE AMCHAM'S EFFECTIVENESS HAS BEEN VITIATED BY LACK OF UNITY. THE MEMBERS MIGHT HAVE HAD A SIGNIFICANT IMPACT ON THE ACTUAL DEBT/EQUITY RATIOS ADOPTED HAD THEY CHOSEN TO ADDRESS THIS ASPECT OF THE ISSUE IN A COORDINATED MANNER.

1. MOST FOREIGN FIRMS WILL PROBABLY FIND SOME WAY TO MEASURE UP TO THE DEBT/EQUITY GUIDELINES. THE MORE IMPORTANT QUESTION TO THE PHILIPPINE ECONOMY IS PACT ON INVESTMENT DECISION. MUCH WILL DEPEND ON THE PERFORMANCE OF THE JOINT COMMITTEE, WHICH WILL HAVE TO DEMONSTRATE A RATE COMBINATION OF FIRMNESS, CONSISTENCY, AND UNDERSTANDING IF IT IS TO SUSTAIN CONFIDENCE IN THE RULES OF THE GAME. END COMMENT.
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